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BEFORE THE ARIZONA CORPORATION

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01583A-04-0178
LAS QUINTAS SERENAS WATER COMPANY)
FOR AN INCREASE IN ITS WATER RATES) STAFF'S NOTICE OF FILING
FOR CUSTOMERS WITHIN PIMA COUNTY,) SURREBUTTAL TESTIMONY
ARIZONA.)

Staff of the Arizona Corporation Commission hereby files the Surrebuttal Testimony of Elena Zestrijan, Alejandro Ramirez, of the Utilities Division and Dorothy Hains, of the Engineering Division, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 1st day of October, 2004.


Jason D. Gellman
Legal Division, Attorney
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

AN ORIGINAL and thirteen (13) copies were filed this 1st day of October, 2004 with:


Docket Control
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Phoenix, Arizona 85007

COPIES of the foregoing document was filed this 1st day of October, 2004 to:

Mr. Steve Gray
General Manager/Operator
Las Quintas Serenas Water Company
16965 Camino De Las Quintas
Post Office Box 68
Sahuarita, Arizona 85629

Arizona Corporation Commission
DOCKETED


OCT - 1 2004

DOCKETED BY 

1 Jane L. Rodda
2 Administrative Law Judge
3 400 West Congress Street
4 Tucson, Arizona 85701

5 Christopher C. Kempley, Chief Counsel
6 Legal Division
7 1200 West Washington Street
8 Phoenix, Arizona 85007

9 Ernest Johnson, Director
10 Utilities Division
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 
14 Angela L. Bennett secretary to
15 Jason D. Gellman
16
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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01583A-04-0178
LAS QUINTAS SERENAS WATER COMPANY)
FOR AN INCREASE IN ITS WATER RATES)
FOR CUSTOMERS WITHIN PIMA COUNTY,)
ARIZONA)
_____)

SURREBUTTAL

TESTIMONY

OF

ELENA ZESTRIJAN

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 1, 2004

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<i>Computation of Gross Revenue Requirements</i>	<i>Surrebuttal Schedule ENZ-1</i>
<i>Gross Revenue Conversion Factor</i>	<i>Surrebuttal Schedule ENZ-2</i>
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<i>Rate Design</i>	<i>Surrebuttal Schedule ENZ-20</i>
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EXECUTIVE SUMMARY
LAS QUINTAS SERENAS WATER COMPANY
Docket No. W-01583A-04-0178

The surrebuttal testimony of Elena Zestrijan responds to Las Quintas Serenas Water Company's rebuttal on the following issues:

1. Staff's recommended Rate Design
2. Salaries and Wages
3. Repairs and Supplies
4. Water Testing Expense
5. Rate Case Expense
6. Transportation Expense
7. Miscellaneous Expense

Staff's position on each of the adjustments and issues remains unchanged from its direct testimony with the exception of the revisions to Salaries and Wages and Rate Case Expense.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Elena Zestrijan. I am a Public Utilities Analyst III employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Elena Zestrijan who previously filed direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony in this proceeding?

A. The purpose of my surrebuttal testimony in this proceeding is to present Staff's response to the rebuttal testimony of Las Quintas Serenas Water Company ("LQS" or "Company") witnesses Ms. Kathleen (Kaycee) Conger regarding rate design and Mr. Dale R. Calvert regarding operating expenses. In addition, I am presenting Staff's surrebuttal schedules ENZ-1, ENZ-2, ENZ-9, ENZ-20, and ENZ-21. These schedules reflect Staff's revised adjusted operating income, revised current rate of return, revised required rate of return, revised required operating income, revised operating income deficiency, revised increase in gross revenue, revised proposed annual revenue, revised required increase in revenue, revised rate design, and revised typical bill analysis.

Q. What other Staff witnesses are involved in the presentation of Staff's responses to rebuttal testimonies?

A. Staff witnesses Mr. Alejandro Ramirez and Ms. Dorothy Hains are presenting Staff responses to other aspects of the rebuttal testimonies.

Q. How is the remainder of your surrebuttal testimony organized?

1 A. I will rebut two of the opposing witnesses in the same order as listed previously and
2 within each section I will rebut issues in the order used by that witness. Then I will
3 review Staff's specific changes to operating income, rates, and the related results.
4

5 **Q. Does the fact that Staff does not respond to any of the Company's issues raised in its**
6 **rebuttal testimony indicate Staff's agreement with the Company position?**

7 A. No. Staff's lack of response to any issue in its surrebuttal testimony should not be
8 construed as agreement with the Company's rebuttal. Rather, Staff relies on its original
9 direct testimony where there is no response.
10

11 **LQS WITNESS, MS. KATHLEEN (KAYCEE) CONGER**

12 **RATE DESIGN**

13 **Q. After review of Ms. Conger's rebuttal testimony, what is Staff's understanding of her**
14 **position on rate design?**

15 A. Ms. Conger's position is that the Company's proposed two-tier rate design is the correct
16 one to use in this proceeding. Further, she states that Staff's three-tier rate design would
17 adversely affect the revenue stream as larger metered customers would switch to smaller
18 meters to reduce their bill.
19

20 **Q. Does Staff agree with Ms. Conger that Staff's rate design would cause larger metered**
21 **size customers to request their meters be replaced with smaller size meters?**

22 A. No. Staff recognizes the Company's concerns but Staff notes that the current rate design
23 charges all customers the exact same amount for the monthly minimum charge and
24 commodity charge regardless of the meter size on 5/8", 1", 1-1/2", and 2" meters. This
25 may have sent the wrong message to customers. Staff believes that any customer should
26 have the smallest meter possible that will meet his regular and peak needs. This will

1 minimize the Company's supply and pumping obligations. The larger a meter size,
2 regardless of usage, requires the Company to commit resources to enable it to meet
3 inflated possibilities that may never be needed. Any customer with a 1", 1-1/2", or 2"
4 meter should need it for some flow requirement (i.e. manufacturing, irrigation, fire
5 protection, etc.). Failing that need, the customer should be served by a 5/8" meter. This
6 will allow the Company to minimize its supply and pumping needs.

7
8 Staff notes that although Ms. Conger complains that this "cross-over" of larger sized
9 meter customers to smaller meters is in Staff's rate design, it also is present in the
10 Company's proposed rate design. Further, Staff believes this type of cross-over is
11 ultimately beneficial to the Company and supports conservation.

12
13 Staff's recommended rates have a lesser impact on a customer's monthly bill than the
14 Company's proposed rates. Staff continues to recommend its three-tier rate design as the
15 correct one in this proceeding.

16
17 **LQS WITNESS, MR. DALE R. CALVERT**

18 **OPERATING EXPENSES**

19 **Salaries and Wages**

20 **Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his**
21 **position on salaries and wages?**

22 **A.** Mr. Calvert's position is that the Company's salaries and wages level proposed in its
23 application is the correct one to use in this proceeding.

24
25 **Q. Does Staff agree with Mr. Calvert that the Company's proposed salaries and wages**
26 **should be the one used in this proceeding?**

1 A. Yes. Staff inadvertently missed information that confirmed a post-test year salary
2 increase. Therefore, Staff's original pro forma adjustment reducing salaries and wages is
3 not necessary. Staff now concurs with the Company's proposed salaries and wages.
4

5 **Repairs and Supplies**

6 **Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his**
7 **position on repairs and supplies?**

8 A. Mr. Calvert's position is that the Company's repairs and supplies level proposed in its
9 application was excessive due to the inclusion of an extraordinary expense. Further he
10 proposes to normalize the extraordinary expense over four years.
11

12 **Q. Does Staff agree with Mr. Calvert that the Company's proposed repairs and supplies**
13 **level is excessive due to inclusion of an extraordinary expense?**

14 A. Yes. Staff concurs with Mr. Calvert that Staff's pro forma adjustment was correct when it
15 removed the extraordinary expense from repairs and supplies.
16

17 **Q. Does Staff agree with Mr. Calvert that the Commission should allow the Company to**
18 **normalize the extraordinary expense over four years?**

19 A. No. Mr. Calvert contends that this extraordinary expense (well-site cleaning) is going to
20 become a regular expense every four years. Mr. Calvert did not offer a past record to
21 substantiate well-site cleaning every four years. He does state that the Company will incur
22 similar expenses in the future. Staff notes that there is no history to support the well-site
23 cleaning as anything more than an extraordinary item. Staff also notes that the well-site
24 cleaning was abandoned by the contractor doing the work and has not been completed.
25 Staff believes that this item is not known and measurable, should not be included in
26 operating expenses, and should not be normalized over any period of time.

Water Testing Expense

Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his position on water testing expense?

A. Mr. Calvert's position is that the Company's proposed water testing expense is the correct one to use in this proceeding. Additionally, Mr. Calvert states that the test year expense level was correct.

Q. Does Staff agree with Mr. Calvert that the Company's water testing expense level proposed is the correct one to use in this proceeding?

A. No. Staff believes that Mr. Calvert may misunderstand Staff's pro forma adjustment of this item. Staff did not reduce water testing expenses by removing any disallowed payments, etc. Staff's pro forma adjustment was recommended to adjust the expense to the recommended amount calculated by the Staff Engineer. The Staff Engineer has reviewed the calculations and continues to support Staff's recommended level of water testing expense. It is the common practice of this Commission to calculate water testing expenses on a going-forward basis so that all known and necessary testing expense is considered in the proceeding.

Q. Should Staff include the testing for sulfate and chlorine residual in its O & M expenses?

A. Yes.

Rate Case Expense

Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his position on rate case expense?

1 A. Mr. Calvert's position is that Staff erred in utilizing only \$6,000 for the total expense
2 when the Company actually proposed \$12,000, normalized over two years. Additionally,
3 Mr. Calvert is proposing to add another \$20,559 of rate case expense to the current
4 proceeding. Mr. Calvert also conceded to a three year normalization period.

5
6 **Q. Does Staff agree with Mr. Calvert that the Company's revised rate case expense**
7 **proposed in rebuttal is the correct one to use in this proceeding?**

8 A. No. Mr. Calvert is correct in identifying Staff's error in recognizing only \$6,000 in
9 expense when \$12,000 was proposed by the Company. However, the Company has yet to
10 substantiate any rate case expense or even submit a summary of its rate case expenses.
11 Staff believes that we are too late in the process to audit any bills available and/or review
12 the estimates for reasonableness. Staff will issue a revised schedule reflecting rate case
13 expense of \$12,000 normalized over three years.

14
15 **Transportation Expense**

16 **Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his**
17 **position on transportation expense?**

18 A. Mr. Calvert's position is that the Company's transportation expense proposed in its
19 application is the correct one to use in this proceeding. Further, he complains that we
20 should offset Staff's pro forma adjustment with an annualization of a vehicle purchase in
21 the test year.

22
23 **Q. Does Staff agree with Mr. Calvert that the Company's transportation expense as**
24 **proposed in its application is the correct one to use in this proceeding?**

25 A. No. The Staff pro forma adjustment to remove \$2,789 is correct. This was paid to Mrs.
26 Janice Gay in the test year. Mrs. Gay is not an employee of the Company but is the wife

1 of an employee. The unorthodox explanation for this, offered in rebuttal by Mr. Calvert,
2 does not justify the added expense. Staff believes that the mileage reimbursement to a
3 non-employee in the manner done in this case is not in the best interest of the ratepayers.
4 Staff continues to believe its pro forma adjustment produces the correct transportation
5 expense in this case.

6 **Miscellaneous Expense**

7 **Q. After review of Mr. Calvert's rebuttal testimony, what is Staff's understanding of his**
8 **position on miscellaneous expense?**

9 A. Mr. Calvert's position is that the Company's miscellaneous expense proposed in its
10 application is the correct one to use in this proceeding. Mr. Calvert also indicates that
11 Staff's pro forma adjustment to remove long distance telephone charges was
12 inappropriate.

13
14 **Q. Does Staff agree with Mr. Calvert that the Company's proposed miscellaneous**
15 **expense is the correct one to use in this proceeding?**

16 A. No. Staff continues to believe that its pro forma adjustment was correct and that Staff's
17 recommended miscellaneous expense is the correct one to use in this proceeding. Staff's
18 recommended pro forma adjustment was a reduction of \$673, for out of state long distance
19 telephone calls. During Staff's field trip it was disclosed that the Company only has one
20 telephone line, one fax line and a cellular phone. The Company is in business to serve
21 local customers. Staff also learned that the Company is managing other businesses out of
22 the same office with the same equipment. Staff analyzed the telephone bills and requested
23 further information on the long distance calls. Staff did not receive any substantiation that
24 any long distance calls were related to the utility business.
25

1 In Mr. Calvert's rebuttal testimony, he contends that most of the out of state long distance
2 telephone calls were utility business. Staff does not believe that such a co-mingling of
3 expenses and assets between a utility and other businesses run by a common owner is in
4 the best interests of ratepayers. Staff does not believe that there is a proper allocation of
5 the office assets and expenses and likely other assets and expenses, as well. Staff believes
6 that there may be some cross-subsidization of expenses that is detrimental to the
7 ratepayers. Staff continues to believe that its recommended miscellaneous expense is the
8 correct one to use in this proceeding.

9
10 **SURREBUTTAL ADJUSTMENTS SUMMARY**

11 **Q. Please summarize Staff's adjustments that you are sponsoring in this surrebuttal**
12 **testimony.**

13 **A.** Staff adjustments made in this surrebuttal are:

- 14
- 15 1. Increase in proposed revenue by \$3,400 reflected on Schedule ENZ-9
 - 16 2. Removal of Staff adjustment to salaries and wages on Schedule ENZ-9
 - 17 3. Increase in rate case expense to \$12,000 normalized over 3 years ENZ-9
 - 18 4. Increase in income tax expense by \$711 due to above changes on ENZ-9
 - 19 and calculated on Schedule ENZ-2

20
21 The results of the above changes are reflected on Schedules ENZ-1, ENZ-2, ENZ-9, ENZ-
22 20, and ENZ-21.

23
24 **Q. Does this conclude your surrebuttal testimony?**

25 **A.** Yes.

26

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	[A] COMPANY ORIGINAL COST	[B] STAFF ORIGINAL COST
1	Adjusted Rate Base	\$ 198,058	\$ 161,341
2	Adjusted Operating Income (Loss)	\$ (6,978)	\$ 10,380
3	Current Rate of Return (L2 / L1)	-3.52%	6.43%
4	Required Rate of Return	30.00%	8.10%
5	Required Operating Income (L4 * L1)	\$ 59,417	\$ 13,069
6	Operating Income Deficiency (L5 - L2)	\$ 66,395	\$ 2,688
7	Gross Revenue Conversion Factor	1.32940	1.26459
8	Increase In Gross Revenue (L7 * L6) Note A	\$ 88,993	\$ 3,400
9	Adjusted Test Year Revenue	\$ 287,332	\$ 287,332
10	Proposed Annual Revenue (L8 + L9) Note B	\$ 376,325	\$ 290,732
11	Required Increase in Revenue (%) (L8/L9) Note C	30.97%	1.18%

NOTES:

A	Company's application indicates	\$ 88,993
	Based on Staff's formula, correct figure is increase In Gross Revenue (L7 * L6)	\$ 88,266
B	Company's application	\$ 376,325
	Based on Staff's formula, correct figure is Proposed Annual Revenue (L8 + L9)	\$ 375,598
C	Company's application	30.97%
	Based on Staff's formula, correct percent is Required Increase in Revenue (%) (L8/L9)	30.72%

Staff used Company's application amounts but also reflects actual amounts in NOTES so that actual results can be seen.

GROSS REVENUE CONVERSION FACTOR

Line
No.

Calculation of Gross Revenue Conversion Factor:

1 Recommended Revenue Increase:		
2 Billings		1.000000
3 Combined Federal and State Income Tax Rate	20.92280%	
4 Uncollectible Rate After Income Taxes	0.00000%	
5 Total Tax Rate		20.92280%
6 Gross Revenue Conversion Factor		<u>1.264587</u>

Calculation of Effective Income Tax Rate:

7 Operating Income Before Taxes (Arizona Taxable Income)	100.00000%
8 Arizona State Income Tax Rate	6.96800%
9 Federal Taxable Income (L7 - L8)	<u>93.03200%</u>
10 Applicable Federal Income Tax Rate (Line 36)	15.00000%
11 Effective Federal Income Tax Rate (L9 x L10)	<u>13.95480%</u>
12 Combined Federal and State Income Tax Rate (L8 +L11)	<u>20.92280%</u>

Calculation of Uncollectible Rate After Income Taxes:

13 Uncollectible Rate	0.00000%
14 Combined Federal and State Income Tax Rate	20.92280%
15 1 minus Combined Federal and State Income Tax Rate	<u>79.07720%</u>
16 Uncollectible Rate After Income Taxes	<u>0.00000%</u>

Revenue Reconciliation:

17 Recommended Increase in Revenue (from ENZ-1, L8)	\$ 3,400	
18 Uncollectible Rate	0.000000%	
19 Required Increase in Revenue to Provide for Uncollectibles		\$ -
20 Recommended Increase in Revenue (from ENZ-1,L8)	\$ 3,400	
21 Required Increase in Revenue to Provide for Uncollectibles	-	
22 Incremental Taxable Income	\$ 3,400	
23 Combined Federal and State Income Tax Rate	20.92280%	
24 Required Increase in Revenue to Provide for Income Taxes		711
25 Required Operating Income	\$ 13,069	
26 Adjusted Test Year Operating Income (Loss)	<u>10,380</u>	
27 Required Increase in Operating Income		2,688
28 Total Required Increase/Decrease In Revenue		<u>\$ 3,400</u>

Calculation of Income Tax:

	Test Year	STAFF Recommended
29 Revenue	\$ 287,332	\$ 290,732
30 Less: Operating Expenses Excluding Income Taxes	\$ 274,205	\$ 274,205
31 Less: Synchronized Interest	\$ -	\$ -
32 Arizona Taxable Income	\$ 13,127	\$ 16,526
33 Arizona State Income Tax Rate	6.968%	6.968%
34 Arizona Income Tax	\$ 915	\$ 1,152
35 Federal Taxable Income	\$ 12,212	\$ 15,375
36 Federal Income Tax @ 15%	\$ 1,832	\$ 2,306
37 Combined Federal and State Income Tax	<u>\$ 2,746</u>	<u>\$ 3,458</u>
		\$ 711

Calculation of Interest Synchronization:

38 Rate Base	\$ 161,341
39 Weighted Average Cost of Debt	0.000%
40 Synchronized Interest	<u>\$ -</u>

OPERATING INCOME - TEST YEAR AND STAFF PROPOSED

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
<u>REVENUES:</u>						
1	Total Operating Revenues	\$ 287,332	\$ -	\$ 287,332	\$ 3,400	\$ 290,732
<u>EXPENSES:</u>						
2	Salaries and Wages	111,468	-	111,468	-	111,468
3	Purchased Power	30,902	-	30,902	-	30,902
4	Repairs and Supplies	17,851	(9,931)	7,920	-	7,920
5	Water Testing	4,804	(752)	4,052	-	4,052
6	Office Supplies and Expense	7,295	-	7,295	-	7,295
7	Contractual Services	11,177	-	11,177	-	11,177
8	Rate Case Expense	6,000	(2,000)	4,000	-	4,000
9	Rent	5,245	-	5,245	-	5,245
10	Transportation Expenses	5,862	(2,789)	3,073	-	3,073
11	Insurance	9,762	-	9,762	-	9,762
12	Miscellaneous Expense	7,275	(673)	6,602	-	6,602
13	Taxes Other than Property and Income	9,352	-	9,352	-	9,352
14	Administrative Expenses	-	-	-	-	-
	Total Operation and Maintenance	226,993	(16,145)	210,848	-	210,848
15	Depreciation and Amortization	52,949	(5,082)	47,867	-	47,867
16	Ad Valorem (Property)	19,568	82	19,650	-	19,650
	Taxes:					
17	Federal & State Income Tax	(1,040)	3,786	2,746	711	3,458
18	Other	(4,160)	-	(4,160)	-	(4,160)
19	Total Operating Expenses	<u>\$ 294,310</u>	<u>\$ (17,358)</u>	<u>\$ 276,952</u>	<u>\$ 711</u>	<u>\$ 277,663</u>
20	Operating Income (Loss)	<u>\$ (6,978)</u>	<u>\$ 17,358</u>	<u>\$ 10,380</u>	<u>\$ 2,688</u>	<u>\$ 13,069</u>

RATE DESIGN

Monthly Usage Charge:

Minimum Monthly Usage Charge				
	Present Rates	---Proposed Rates---		Surrebuttal Revised
		Company	Staff	
5/8" x 3/4" Meter	\$ 10.00	\$ 12.50	\$ 9.05	\$ 9.35
1" Meter	\$ 10.00	\$ 12.50	\$ 22.50	\$ 22.50
1 1/2" Meter	\$ 10.00	\$ 25.00	\$ 53.00	\$ 53.00
2" Meter	\$ 10.00	\$ 50.00	\$ 66.00	\$ 66.00
2 1/2" Meter	\$ -	\$ 100.00	\$ 90.00	\$ 90.00
3" Meter	\$ -	\$ 150.00	\$ 125.00	\$ 125.00
4" Meter	\$ 250.00	\$ 250.00	\$ 225.00	\$ 225.00
5" Meter	\$ -	\$ 300.00	\$ 275.00	\$ 275.00
6" Meter	\$ -	\$ 400.00	\$ 350.00	\$ 350.00

Standpipe	\$ 10.00	\$ 12.50	\$ 9.05	\$ 9.60
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Gallons Included In Minimum Charge:

5/8" x 3/4" Meter	2,000	0	0	0
1" Meter	2,000	0	0	0
2" Meter	2,000	0	0	0
2 1/2" Meter	N/A	0	0	0
3" Meter	N/A	0	0	0
4" Meter	50,000	0	0	0
5" Meter	N/A	0	0	0
6" Meter	N/A	0	0	0

Standpipe	2,000	0	0	0
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RATE DESIGN

	Present Rates	---Proposed Rates---	Surrebuttal Revised
		Company	Staff
Service Line and Meter Installation Charge:			
5/8" x 3/4" Meter	\$ 150.00	\$ 150.00	\$ 150.00
1" Meter	\$ 225.00	\$ 225.00	\$ 225.00
1 1/2" Meter	\$ 350.00	\$ 475.00	\$ 475.00
2" Meter	\$ 500.00	\$ 625.00	\$ 625.00
3" Meter	N/A	\$ 850.00	\$ 850.00
4" Meter	\$ 2,200.00	\$ 1,800.00	\$ 1,800.00
6" Meter	N/A	\$ 3,000.00	\$ 3,000.00
Standpipe Charges			
Original Key Deposit (1Gate Key/ 1 Account Key)	\$ 25.00	\$ 40.00	\$ 30.00
Additional Set	\$ 5.00	\$ 10.00	\$ 5.00
Service Charges:			
Establishment	\$ 10.00	\$ 20.00	\$ 15.00
Establishment Fee (After hours)	\$ 15.00	\$ 30.00	\$ 20.00
Re-Establishment Fee (Within 12 Months)	\$ 7.28	\$ -	(a)
Meter Testing by Customer Request	\$ 15.00	\$ 25.00	\$ 20.00
Meter Re-Read by Customer Request	\$ 10.00	\$ 15.00	\$ 15.00
NSF Check Fee	\$ 10.00	\$ 15.00	\$ 10.00
Reconnect Fee	\$ 10.00	\$ 20.00	\$ 10.00
Reconnect Fee (After Hours/Customer Request)	\$ -	\$ 30.00	\$ 15.00
Off Site Facilities Hook-Up Fees	\$ 250.00	\$ 500.00	\$ 250.00
Guarantee Deposit	(b)	(b)	(b)
Late Payment Fee	N/A	(c)	(c)

- (a) Number of months off system X minimum monthly charge
(b) Per Commission Rule A.A.C. R14-2-403B
(c) 1.5 percent per Commission Rule.B25

Las Quintas Serenas Water Company
Docket No. W-01583A-04-0178
Test Year Ended September 30, 2003

Schedule ENZ 21

TYPICAL BILL ANALYSIS
General Service 5/8 x 3/4 - Inch Meter

Average Number of Customers: 688

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	12,172	\$23.83	\$29.05	\$5.22	21.9%
Median Usage	8,831	\$19.29	\$24.51	\$5.22	27.1%
<u>Staff Proposed</u>					
Average Usage	12,172	\$23.83	\$22.25	(\$1.58)	-6.6%
Median Usage	8,831	\$19.29	\$18.41	(\$0.88)	-4.6%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$10.00	\$12.50	25.0%	\$9.05	-9.5%
1,000	10.00	13.86	38.6%	10.00	0.0%
2,000	10.00	15.22	52.2%	10.95	9.5%
3,000	11.36	16.58	46.0%	11.90	4.8%
4,000	12.72	17.94	41.0%	12.85	1.0%
5,000	14.08	19.30	37.1%	14.00	-0.6%
6,000	15.44	20.66	33.8%	15.15	-1.9%
7,000	16.80	22.02	31.1%	16.30	-3.0%
8,000	18.16	23.38	28.7%	17.45	-3.9%
9,000	19.52	24.74	26.7%	18.60	-4.7%
10,000	20.88	26.10	25.0%	19.75	-5.4%
15,000	27.68	32.90	18.9%	25.50	-7.9%
20,000	34.48	39.70	15.1%	31.25	-9.4%
25,000	41.28	49.95	21.0%	37.40	-9.4%
50,000	75.28	101.20	34.4%	71.15	-5.5%
75,000	109.28	152.45	39.5%	104.90	-4.0%
100,000	143.28	203.70	42.2%	138.65	-3.2%
125,000	177.28	254.95	43.8%	172.40	-2.8%
150,000	211.28	306.20	44.9%	206.15	-2.4%
175,000	245.28	357.45	45.7%	239.90	-2.2%
200,000	279.28	408.70	46.3%	273.65	-2.0%

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN MAYES

Commissioner

IN THE MATTER OF THE APPLICATION OF)
LAS QUINTAS SERENAS WATER COMPANY)
FOR PERMANENT RATE INCREASES FOR)
WATER)
_____)

DOCKET NO. W-01583A-04-0178

SURREBUTTAL

TESTIMONY

OF

ALEJANDRO RAMIREZ

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 1, 2004

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EXECUTIVE SUMMARY

The Surrebuttal of Staff witness Alejandro Ramirez addresses the following issues:

Cost of Equity – Staff presents its updated cost of equity estimates. Staff's updated estimate of the cost of equity to Las Quintas Serenas Water Company is 8.1 percent.

Staff recommends the Commission adopt an 8.1 percent return on equity ("ROE"). Staff bases its ROE recommendation on its discounted cash flow ("DCF") and capital asset pricing model ("CAPM") analyses. Staff's recommendation is based on cost of equity estimates ranging from 7.8 percent to 8.4 percent.

Staff's updated analysis shows that an 8.5 percent ROE is not in the updated 7.8 to 8.4 percent cost of equity estimate range. Accordingly, a reduction in Staff's ROE recommendation is appropriate.

Overall Rate of Return - Staff recommends the Commission adopt an overall rate of return ("ROR") of 8.1 percent.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Alejandro Ramirez. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Alejandro Ramirez who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of surrebuttal testimony is to present an updated analysis of the cost of capital for Las Quintas Serenas, and to present Staff's updated recommendation in that regard.

Q. Have you prepared any exhibits to your testimony?

A. Yes. I have updated eight schedules from my direct testimony (AXR-1 to AXR-8) that support Staff's cost of capital analysis.

Q. What is Staff's updated recommended rate of return for Las Quintas Serenas?

A. Staff recommends an 8.1 percent ROR, which is based on updated cost of equity estimates that range from 7.8 percent to 8.4 percent. This rate is calculated on Schedule AXR-1.

I. UPDATED COST OF EQUITY CAPITAL ANALYSIS FOR THE SAMPLE WATER UTILITY

Q. Did you update your cost of equity capital analysis for the sample water utilities?

A. Yes. I have updated Staff's cost of equity capital estimate with market data of September 15, 2004. Staff also updated data from *The Value Line Investment Survey* ("*Value Line*").

Q. What is the result of Staff's updated constant-growth DCF analysis?

A. Schedule AXR-8 shows the result of Staff's constant-growth DCF Analysis using updated information. Staff's constant-growth DCF updated estimate of the cost of equity to the sample water utilities is 9.1 percent.

Q. What is the result of Staff's updated multi-stage DCF analysis?

A. Schedule AXR-7 shows the updated result of Staff's multi-stage DCF Analysis. Staff's updated multi-stage DCF estimate of the cost of equity to the sample water utilities is 9.5 percent.

Q. What is the result of Staff's updated CAPM analysis using the historical market risk premium estimate?

A. Schedule AXR-8 shows the result of Staff's updated CAPM analysis using the historical risk premium estimate. Staff's updated CAPM estimate (using the historical market risk premium) of the cost of equity to the sample water utilities is 8.8 percent.

1 **Q. What is the result of Staff's updated CAPM analysis using the current market risk**
2 **premium estimate?**

3 A. Schedule AXR-8 shows the result of Staff's updated CAPM Analysis using the current
4 risk premium estimate. Staff's updated CAPM estimate (using the current market risk
5 premium) of the cost of equity to the sample water utilities is 8.7 percent.

6
7 **Q. Please summarize the results of Staff's cost of equity analysis.**

8 A. The following table shows the results of Staff's updated cost of equity analysis:

9
10 **Table 1**

Method	Estimate
Average DCF Estimate	9.30%
Average CAPM Estimate	8.75%
Overall Average	9.03%

11
12 Staff's updated average estimate of the cost of equity to the sample water utilities is 9.0
13 percent.

14
15 **II. FINAL COST OF EQUITY ESTIMATES FOR LAS QUINTAS SERENAS**

16 **Q. Do you have any comment on Las Quintas Serenas capital structure?**

17 A. Yes, I do. As stated in my direct testimony, Stockholders do not bear any financial risk
18 due Las Quintas Serenas' capital structure, which is composed of 100 percent equity
19 (Ramirez Direct, Page 27, Ln 13-16). The updated average capital structure for the sample
20 water utilities is composed of 50.0 percent equity and 50.0 percent debt as shown on
21 Schedule AXR-2. Staff has updated the effect of Las Quintas Serenas' capital structure on

1 its cost of equity using the same methodology used in Staff's direct testimony. Staff
2 calculated a financial risk adjustment for Las Quintas Serenas of negative 92 basis points.

3
4 **Q. How did Staff estimate its ROE estimate for Las Quintas Serenas?**

5 **A.** Staff applied the negative 92 basis point financial risk adjuster to Staff's updated estimate
6 of the cost of equity to the sample water utilities.

7
8 **Q. What is Staff's ROE estimate for Las Quintas Serenas?**

9 **A.** Staff's ROE estimate is 8.1 percent for the Applicant. Staff's ROE estimate is based on
10 cost of equity estimates ranging from 7.8 percent (CAPM) to 8.4 percent (DCF).

11
12 **Q. What is Staff's ROE recommendation for Las Quintas Serenas?**

13 **A.** Staff recommends and 8.1 percent ROE based on the updated cost of equity estimates
14 ranging from 7.8 percent and 8.4 percent.

15
16 **Q. In Staff's direct testimony, Staff recommended and ROE of 8.5 percent for Las
17 Quintas Serenas. What has made you revise your recommendation at this time?**

18 **A.** In Staff's direct testimony, Staff estimated an ROE for the Applicant of 8.1 percent
19 (Ramirez Direct, Executive Summary, Page 28 ln 3, 14) based on Staff's 7.5 percent to 8.7
20 percent cost of equity estimate range. Staff's updated ROE estimate, using more current
21 data, has produced the same ROE estimate of 8.1 percent for Las Quintas Serenas based
22 on updated cost of equity estimates ranging from 7.8 percent to 8.4 percent.

23
24 Staff previously recommended an 8.5 percent ROE for Las Quintas Serenas because at
25 that time, Staff's ROE estimate of 8.1 percent would have resulted in a revenue

1 requirement decrease of \$764. Staff considered that the decrease in revenue requirement
2 of \$764 was de minimis, and decided to recommend an ROE which ultimately would not
3 decrease Las quintas Serenas' revenues. Staff's initial recommendation of 8.5 percent was
4 consistent with Staff's 7.5 percent to 8.7 percent cost of equity estimate range.

5
6 Staff has revised its recommendation for two reasons:

7 First, the surrebuttal position of other Staff witnesses increases the revenue requirement,
8 so that an 8.1 percent ROE would result in a revenue requirement increase of 1.18 percent
9 rather than a decrease. Therefore, Staff's primary reason for recommending an 8.5 percent
10 ROE rather than an 8.1 percent ROE no longer exists. Second, Staff's updated analysis
11 shows that an 8.5 percent ROE is not in the updated 7.8 to 8.4 percent cost of equity
12 estimate range.

13
14 **III. RATE OF RETURN RECOMMENDATION**

15 **Q. What is Staff's overall rate of return recommendation for Las Quintas Serenas?**

16 **A.** Staff recommends a ROR of 8.1 percent for Las Quintas Serenas, as shown in Schedule
17 AXR-1 and the following table:

18
19 **Table 2**

	Weight	Cost	Weighted Cost
Long-term Debt	0.0%	0.0%	0.0%
Common Equity	100.0%	8.1%	<u>8.1%</u>
Cost of Capital/ROR			8.1%

1 **CONCLUSION**

2 **Q. Please summarize Staff's recommendations.**

3 A. Staff recommends that the Commission adopt an overall rate of return of 8.1 percent.

4 Staff's recommendation is based on a 100 percent equity capital structure and an 8.1
5 percent return on equity.

6
7
8 **Q. Does this conclude your surrebuttal testimony?**

9 A. Yes, it does.

Las Quintas Serenas Water Company
Capital Structure
And Weighted Cost of Capital

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long-term Debt	0.0%	0.00%	0.00%
Common Equity	100.0%	8.1%	8.1%
Weighted Average Cost of Capital/ROR			8.1%

Supporting Schedules: Schedule AXR-2, Schedule AXR-8

Las Quintas Serenas Water Company
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	Long-Term <u>Debt</u>	Common <u>Equity</u>	<u>Total</u>
American States Water	50.7%	49.3%	100.0%
California Water	52.3%	47.7%	100.0%
Aqua America	50.9%	49.1%	100.0%
Connecticut Water	43.4%	56.6%	100.0%
Middlesex Water	55.7%	44.3%	100.0%
SJW Corp	<u>47.1%</u>	<u>52.9%</u>	<u>100.0%</u>
Average Sample Water Utilities	50.0%	50.0%	100.0%
Las Quintas Serenas Water Company	0.0%	100.0%	100.0%

Source: Value Line, Las Quintas Serenas' application

Las Quintas Serenas Water Company
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
Company	Dividends Per Share 1993 to 2003 <u>DPS</u>	Dividends Per Share Projected <u>DPS</u>	Earnings Per Share 1993 to 2003 <u>EPS</u>	Earnings Per Share Projected <u>EPS</u>
American States Water	1.1%	1.8%	-3.5%	20.7%
California Water	1.6%	1.0%	-1.1%	11.1%
Aqua America	5.5%	6.8%	8.7%	9.6%
Connecticut Water	1.3%	No Projection	2.6%	No Projection
Middlesex Water	2.5%	No Projection	-0.9%	No Projection
SJW Corp	<u>3.6%</u>	<u>No Projection</u>	<u>4.2%</u>	<u>No Projection</u>
Average Sample Water Utilities	2.6%	3.2%	1.7%	13.8%

Source: Value Line

Las Quintas Serenas Water Company
Intrinsic Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
Company	Retention Growth 1994 to 2003 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Intrinsic Growth 1994 to 2003 <u>br + vs</u>	Intrinsic Growth Projected <u>br + vs</u>
American States Water	2.5%	4.5%	1.1%	3.7%	5.6%
California Water	2.5%	5.5%	1.4%	3.9%	6.9%
Aqua America	4.0%	6.0%	6.6%	10.6%	12.6%
Connecticut Water	3.0%	No Projection	0.6%	3.5%	No Projection
Middlesex Water	1.7%	No Projection	3.5%	5.2%	No Projection
SJW Corp	<u>4.8%</u>	<u>No Projection</u>	<u>0.0%</u>	<u>4.8%</u>	<u>No Projection</u>
Average Sample Water Utilities	3.1%	5.3%	2.2%	5.3%	8.4%

Source: Value Line, MSN Money

Las Quintas Serenas Water Company
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Company	Symbol	Spot Price 9/15/04	Book Value 9/15/04	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
American States Water	AWR	25.60	14.70	1.7	0.70	0.52
California Water	CWT	29.30	15.12	1.9	0.70	0.52
Aqua America	WTR	22.02	7.42	3.0	0.75	0.60
Connecticut Water	CTWS	26.75	10.62	2.5	0.65	0.45
Middlesex Water	MSEX	18.48	7.42	2.5	0.60	0.37
SJW Corp	SJW	35.05	18.11	1.9	0.55	0.30
Average				2.3	0.66	0.46

Source: Msn Money, Value Line

Las Quintas Serenas Water Company
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical	2.6%
DPS Growth - Projected	3.2%
EPS Growth - Historical	1.7%
EPS Growth - Projected	13.8%
Intrinsic Growth - Historical	5.3%
<u>Intrinsic Growth - Projected</u>	<u>8.4%</u>
Average	5.8%

Supporting Schedules: Schedule AXR-3 and Schedule AXR-4

Las Quintas Serenas Water Company
Multi-Stage DCF Estimates
Sample Water Utilities

[A] Company	[B] Current Mkt. Price (P_0)	[C] Projected Dividends ¹ (stage 1 growth) (D_t)				[E]	[F]	[H] Stage 2 growth ² (g_n)	[I] Equity Cost Estimate (K)
		d_1	d_2	d_3	d_4				
American States Water	25.6	0.90	0.92	0.94	0.96			6.5%	9.6%
California Water	29.3	1.13	1.15	1.16	1.18			6.5%	9.9%
Aqua America	22.0	0.52	0.56	0.60	0.64			6.5%	8.9%
Connecticut Water	26.8	0.88	0.91	0.94	0.98			6.5%	9.5%
Middlesex Water	18.5	0.69	0.71	0.74	0.77			6.5%	10.0%
SJW Corp	35.1	1.05	1.09	1.13	1.17			6.5%	9.3%

Average **9.5%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K - g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non - constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

¹ d_1 = "Est'd Div'd next 12 mos." 09/03/2004, Value Line Summary & Index.

² Average annual growth in GDP 1929 - 2003 in current dollars. <http://www.bea.doc.gov/>

Las Quintas Serenas Water Company
Final Cost of Equity Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>Constant Growth DCF</u>				
Constant Growth DCF Estimate		$\frac{D_1}{P_0}$	+	= $\frac{k}{g}$
Multi-Stage DCF Estimate		3.3%	+	= 9.1%
Average of DCF Estimates				= <u>9.5%</u>
				9.30%
<u>CAPM Method</u>				
Historical Market Risk Premium	R_f	β	x	= k
Current Market Risk Premium	3.8%	0.66	x	= 8.8%
Average of CAPM Estimates	3.8%	0.66	x	= <u>8.7%</u>
				8.75%
			Average	9.03%

Source: The Wall Street Journal, Value Line, Ibbotson Associates S&P 500 2004 Yearbook
Supporting Schedules: Schedule AXR-7

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER

Chairman

WILLIAM A. MUNDELL

Commissioner

JEFF HATCH-MILLER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01583A-04-0178
LAS QUINTAS SERENAS WATER COMPANY, INC.,)
AN ARIZONA CORPORATION, FOR A RATE)
INCREASE)

SURREBUTTAL TESTIMONY

OF

DOROTHY HAINS

UTILITIES ENGINEER

UTILITIES DIVISION

OCTOBER 1, 2004

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Dorothy Hains. My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Dorothy Hains who has previously filed testimony in this Las Quintas Serenas Water Company ("Company") rate proceeding?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I will be responding to three issues raised by the Company's witness, Mr. Gay, in his rebuttal testimony filed on September 20, 2004. My responses specifically address the following issues: (1) the estimated annual water testing costs; (2) the Company's storage and production capacity; and (3) the Company's proposal to raise its current off-site Hookup Fees.

II. WATER TESTING COSTS

Q. Do the water testing costs in your direct testimony include expenses for testing when the Company has to replace or repair damaged pipelines or test for arsenic and/or sulfate? Please explain.

A. No. The estimated water testing expenses included in Staff's direct testimony are for monitoring the water quality in the source and distribution system on a routine basis that is required per Arizona Department of Environmental Quality ("ADEQ") regulations. This testing would include, for example, annual testing for nitrate and monthly testing for bacteria. (See page 9 of Exhibit 1 in Dorothy Hains direct testimony.) Mr. Gay mentions

1 in his rebuttal testimony that the Company conducts disinfection and tests chlorine residual
2 in the water lines whenever the Company has to repair and/or replace pipes. Staff
3 considers this type of testing to be an Operation and Maintenance ("O&M") expense which
4 is not accounted for in the same manner that regularly scheduled annual testing expenses
5 are. Mr. Gay further stated that the Company test arsenic on a monthly basis and the
6 Company is researching arsenic removal technologies for possible use to meet the new
7 arsenic standards. The expense for the regular annual testing for arsenic is included in
8 ADEQ's Monitoring Assistance Program ("MAP") that is listed in Table 9 in Exhibit 1 of
9 the Engineering Staff Report. Staff believes that one or two tests should be adequate to
10 confirm if the source contains arsenic, it is unnecessary to test twelve times per year to
11 determine the arsenic level. Staff disagrees that this cost should be included in the
12 regularly scheduled annual testing expenses. Costs that occur in the determination of an
13 appropriate arsenic removal technique should be recovered in conjunction with the
14 Company's arsenic removal plan, not in the ongoing regularly scheduled annual water
15 testing expenses used in this rate case. Mr. Gay also stated the Company was testing for
16 sulfate due to an expectation that high sulfates existed in the source. ADEQ does not
17 require an operator to monitor sulfate in their sources, therefore the expenses associated
18 with this type of testing should be included as an O&M expense or in the arsenic removal
19 plan not as a "water testing" expense.

20
21 **Q. Should any of these extra ordinary testing expenses be included as O&M in Staff's**
22 **revenue requirement analysis?**

23 **A.** Yes, expenses of chlorine residual and sulfate testings should be included in the O&M
24 account.
25

1 **III. STORAGE AND PRODUCTION CAPACITY**

2 **Q. Does the Company have adequate storage and production capacity?**

3 **A.** Yes, Staff believes that the Company has adequate storage and production capacity. The
4 Company owns three wells which have a total flow rate of 1,200 gallons per minutes
5 ("GPM") to 1,500 GPM. The Company also owns and operates two storage tanks with a
6 total storage capacity of 90,000 gallons. If the Company operates its plant at its rated
7 capacity, an additional 296 customers could be served by the existing system. While Staff
8 would agree that the Company would not have adequate capacity to serve growth if its
9 wells or tanks were down for an extended period of time, the Company has not reported
10 any problems, such as, declining well water levels, recurring well pump failures, leaking
11 storage tanks, etc. which would reduce the production and storage capability of the
12 Company. Therefore, Staff concludes that the Company has adequate storage and
13 production capacity.

14
15 **Q. Did Staff include the Park/Aries/Ruby Star areas in its production and storage**
16 **capacity calculations?**

17 **A.** No. Mr. Gay's rebuttal states that an estimated 3,000 to 5,000 lots will be served by the
18 Company in the Park/Aries/Ruby Star areas. However, these areas are not within the
19 Company's certificated service area. In addition, there is no pending case before the
20 Commission that would add the subject area to the Company's Certificate of Convenience
21 and Necessity. Furthermore, there are four other water companies in the surrounding area;
22 they are Farmers Water, Community Water Company of Green Valley, Rancho Sahuraita
23 Water and Sahuraita Village Water. Any one of these water companies could file an
24 application to serve the subject area, therefore it would be premature to conclude that the

1 Company will be the provider of water service in the subject areas. For these reasons, Staff
2 excluded the subject areas from its capacity calculations.

3
4 **Q. Did the Company propose to add a new well and additional storage capacity to serve**
5 **new customers within the Company's existing certificated service area?**

6 **A.** Yes, the Company projected that an additional 700 connections would be added to the
7 system due to development in the Company's existing service area and 3,000 to 5,000 lots
8 will be served by the Company in the Park/Aries/Ruby Star areas which are not in the
9 Company's certificated service area. The Company proposed to add a new well and
10 650,000 gallons of additional storage capacity to meet this new demand.

11
12 **Q. Does Staff agree that a new well is needed to service this growth?**

13 **A.** No, with the addition of the 200,000 gallons of storage capacity the Company would have
14 adequate production and storage capacity to serve 768 new connections. Staff however
15 believes that if the anticipated growth materializes at some point in the future it may be
16 appropriate to add an additional well which could be used as a backup well in an
17 emergency.

18
19 **IV. INCREASE IN EXISTING OFF-SITE HOOK-UP FEES**

20 **Q. Please explain why Staff excluded the cost of Well No. 7 in its hook-up fee**
21 **calculations.**

22 **A.** Staff observed during its site inspection that Well No. 7 is already in-service. As a result
23 Well No. 7 has been included as plant in-service in Staff's rate base determination in this
24 case. Well No. 7 was needed to serve existing as well as new customers. Since the hook-
25 up fees will only apply to new connections for service, only future plant items necessary

1 to provide service to the new connections should be included in the hook-up fee
2 calculations.
3

4 **Q. Which plant items were included in the existing hook-up fees that have not been**
5 **installed?**

6 **A.** The original off-site hook-up fee project included the installation of two 100,000 gallon
7 storage tanks, Well No. 7 installation, Well No. 5 and No. 6 upgrades, and pipelines
8 associated with the interconnection of new plant. These plant items were projected to serve
9 775 new connections. Other than two 100,000 gallon storage tanks the proposed plant
10 additions listed above have been completed and are in-service.
11

12 **Q. Will the 200,000 gallons of additional storage capacity be adequate to meet the**
13 **current projections of 700 new connections?**

14 **A.** Yes. Based on the latest water usage data, the Company experienced annual average water
15 use of 728 gallons per day per customer in 2003 during the peak month. Because the
16 Company's system was not designed for fire flow usage, the minimum water storage
17 requirement is the annual average daily consumption during the peak month, which is
18 based on ADEQ's storage tank design guidelines. After the 200,000 gallon storage
19 capacity has been added to the system, the Company will have a total of 1,226,000 gallons
20 storage capacity. Staff estimates that the average daily demand during the peak month will
21 be 1,168,000 gallons, including the 700 new connections. Therefore, Staff concludes that
22 the 200,000 gallons of additional storage capacity will be adequate.
23
24
25

1 **Q. What is Staff's estimated cost to install the two 100,000 gallon storage tanks?**

2 **A.** Staff estimates that it will cost \$164,000 to install the two 100,000 gallon storage tanks
3 today, this estimate includes \$80,000 for the tanks themselves, \$4,000 for plumbing work,
4 and \$80,000 for control panels and electrical work.

5
6 **Q. Please summarize what was included in Staff's off-site hook-up fee calculation and**
7 **Staff's conclusion.**

8 **A.** Staff's calculations included the two 100,000 gallon storage tanks at an estimated cost of
9 \$164,000. Assuming there are 700 new connections, each new customer would need to
10 contribute \$234 to cover the cost of constructing these tanks. Because this amount is below
11 the limit of \$250 established in Decision No. 58839, Staff concluded that the existing hook-
12 up fee amounts were adequate and that these fees should not be increased at this time as
13 proposed by the Company.

14
15 **Q. Does Staff have any corrections it would like to make to its prefled direct testimony**
16 **at this time?**

17 **A.** Yes. Staff found a typographical error in Table 11 on page 11 in Exhibit 1 which is the
18 Engineering Staff Report. It should read \$3,050 instead of \$3.050 under the column
19 heading "Original Cost", the fifth item down labeled "Account 307".

20
21 **Q. Does this conclude your surrebuttal testimony?**

22 **A.** Yes, it does.

